

MAHASKA COUNTY HOSPITAL  
(d/b/a MAHASKA HEALTH PARTNERSHIP)

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2016 AND 2015

# MAHASKA HEALTH PARTNERSHIP

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MAHASKA HEALTH PARTNERSHIP  
Officials  
June 30, 2016

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Becky Siefering, Chairman	Oskaloosa, Iowa	2018
Mary Sexton, Vice-Chairman	Rose Hill, Iowa	2020
David Langkamp, Secretary	Oskaloosa, Iowa	2016
Amy McGriff, Treasurer	New Sharon, Iowa	2016
Paul Swenson	Oskaloosa, Iowa	2020
Jim Hansen	Oskaloosa, Iowa	2018
Mike Grim	Oskaloosa, Iowa	2020
<u>Chief Executive Officer:</u>		
Jay Christensen	Oskaloosa, Iowa	
<u>Chief Financial Officer:</u>		
Omaira Heakin (Terminated July, 2016)	Oskaloosa, Iowa	

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Mahaska Health Partnership  
Oskaloosa, Iowa

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of Mahaska Health Partnership (Hospital) and its discretely presented component unit, Mahaska Health Partnership Foundation (Foundation) as of June 30, 2016 and 2015, and the related notes to the financial statements listed in the Contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees  
Mahaska Health Partnership

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion the financial statements referred to above present fairly in all material respects, the financial position of Mahaska Health Partnership and Mahaska Health Partnership Foundation as of June 30, 2016 and 2015 and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Hospital's Proportionate Share of the Net Pension Liability and of Hospital Contributions (and the related notes) on pages 3 through 3d and on pages 32 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Mahaska Health Partnership's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 1 and 36 through 51 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees  
Mahaska Health Partnership

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2016 on our consideration of Mahaska Health Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Mahaska Health Partnership's internal control over financial reporting and compliance.

*Geme Wahl, Ben, Kyhan & Co. P. C.*

Atlantic, Iowa  
November 17, 2016

## Mahaska Health Partnership Management's Discussion and Analysis

Our discussion and analysis of Mahaska Health Partnership (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2016, 2015, and 2014. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

Please note that the Foundation's activities have been included as a discretely presented component unit of the Hospital.

### FINANCIAL HIGHLIGHTS

The Hospital's total assets and deferred outflows of resources decreased approximately \$1,148,000 during fiscal year 2016. Net position, or total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources, decreased by approximately \$2,186,000 during fiscal 2016, a decrease of approximately 11.4 percent. See 3b for explanation of July 1, 2014 decrease.

The Hospital reported operating losses in 2016 (\$3,290,284) and 2015 (\$2,540,799). Losses in 2016 increased by \$749,485 from the loss reported in 2015. Operating losses in 2015 increased by \$1,661,166 from the loss reported in 2014.

Nonoperating revenues decreased by \$62,253 in 2016 compared to 2015.  
Nonoperating revenues increased by \$312,519 in 2015 compared to 2014.

Excess expenses over revenues increased by \$1,311,738 in 2016 compared to 2015 and increased by \$848,647 in 2015 compared to 2014.

### USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

### THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 3a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Mahaska Health Partnership  
Management's Discussion and Analysis - Continued

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position - the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

#### THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

#### THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets, deferred outflows of resources, liabilities, and deferred inflows of resources reported in the Statement of Net Position on page 4. The Hospital's net position decreased by \$2,185,503 in 2016 and decreased by \$15,463,602 in 2015, as you can see from Table 1. Most of the FY2015 decrease was due to the required implementation of GASB Statement No. 68.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2016</u>	<u>2015</u>	<u>Not Restated 2014</u>
Assets:			
Current assets	\$ 19,571,558	\$ 18,956,877	\$ 17,230,555
Capital assets, net	38,667,299	39,284,816	40,593,077
Other noncurrent assets	4,447,090	5,133,829	6,374,272
Deferred Outflows of Resources	<u>5,824,152</u>	<u>6,282,941</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 68,510,099</u>	<u>\$ 69,658,463</u>	<u>\$ 64,197,904</u>
Liabilities:			
Long-term debt outstanding	\$ 23,180,346	\$ 22,770,760	\$ 23,015,000
Current liabilities	6,179,882	5,431,808	4,663,285
Net pension liability	<u>18,289,756</u>	<u>14,649,988</u>	<u>--</u>
Total liabilities	<u>\$ 47,649,984</u>	<u>\$ 42,852,556</u>	<u>\$ 27,678,285</u>
Deferred Inflows of Resources	<u>\$ 3,812,653</u>	<u>\$ 7,572,942</u>	<u>\$ 1,823,052</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 14,571,339	\$ 16,242,350	\$ 17,567,023
Restricted expendable assets	1,000,000	1,000,000	1,000,000
Restricted nonexpendable permanent endowments	6,000	6,000	6,000
Unrestricted	<u>1,470,123</u>	<u>1,984,615</u>	<u>16,123,544</u>
Total net position	<u>\$ 17,047,462</u>	<u>\$ 19,232,965</u>	<u>\$ 34,696,567</u>



Mahaska Health Partnership  
Management's Discussion and Analysis - Continued

The Government Accounting Standards Board (GASB) required a change in the method of accounting for the Hospital's pension costs during the 2014-15 year. The requirement resulted in significant changes to: net position (\$14,589,837 decrease), long-term liabilities (\$16,821,737 increase), and created a deferred outflow of resources (\$2,231,900) as of July 1, 2014. Although the Hospital's financial statement reporting has changed significantly, the requirement will have no effect on the Hospital's actual operations.

### OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2016, the Hospital's net position decreased by \$2,185,503, as shown in Table 2. This decrease is made up of various different components.

Table 2: Operating Results and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Not Restated 2014</u>
Operating Revenues:			
Net patient service revenues	\$ 49,562,467	\$ 48,425,900	\$ 48,627,786
Other operating revenues	<u>1,602,614</u>	<u>1,905,972</u>	<u>1,733,785</u>
Total operating revenues	51,165,081	50,331,872	50,361,571
Operating Expenses:			
Salaries and benefits	36,342,792	34,453,779	33,811,256
Professional fees	1,222,267	1,264,236	1,175,483
Other operating expenses	13,186,603	13,663,843	13,211,168
Depreciation and amortization	<u>3,703,703</u>	<u>3,490,813</u>	<u>3,043,297</u>
Total operating expenses	<u>54,455,365</u>	<u>52,872,671</u>	<u>51,241,204</u>
Operating loss	( 3,290,284)	( 2,540,799)	( 879,633)
Nonoperating Revenues and Expenses:			
Property taxes	1,945,821	1,930,390	1,914,302
Investment income	9,250	9,930	13,642
Noncapital grants and contributions	6,452	6,727	7,298
Other nonoperating revenues and expenses, net	<u>( 856,742)</u>	<u>( 780,013)</u>	<u>( 1,080,727)</u>
Nonoperating revenues, net	<u>1,104,781</u>	<u>1,167,034</u>	<u>854,515</u>
Excess of Revenues Under Expenses Before Capital Contributions	( 2,185,503)	( 1,373,765)	( 25,118)
Capital Contributions	<u>--</u>	<u>500,000</u>	<u>--</u>
Excess of Expenses Over Revenues and Decrease in Net Position	( 2,185,503)	( 873,765)	( 25,118)
Net Position Beginning of Year	<u>19,232,965</u>	<u>20,106,730</u>	<u>34,721,685</u>
Net Position End of Year	<u>\$ 17,047,462</u>	<u>\$ 19,232,965</u>	<u>\$ 34,696,567</u>

Mahaska Health Partnership  
Management's Discussion and Analysis - Continued

## BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2016 was prepared on a modified accrual basis. The original budget of expenditures was approved at the meeting on February 23, 2015. Actual expenditures were lower than budget.

## OPERATING LOSSES

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. Losses in 2016 increased by \$749,485 compared to the loss reported in 2015.

## NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital, investment earnings and noncapital contributions. Nonoperating expenses consist of primarily interest expense. Net nonoperating revenues decreased by \$62,253 compared to 2015.

## GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A of the financial statements. The Foundation received \$102,295 in 2016 in contributions to be used for the Hospital's construction project and hospice house funding.

## THE HOSPITAL'S CASH FLOWS

The Hospital's Statement of Cash Flows is an analytical tool useful in determining the short-term viability of the organization. The statement includes only cash inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments (i.e., depreciation, bad debt write-offs). Total cash and cash equivalents at June 30, 2016 was \$8,299,348 compared to \$6,734,875 at June 30, 2015.

Mahaska Health Partnership  
Management's Discussion and Analysis - Continued

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets:

At the end of 2016, the Hospital had approximately \$38.7 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. The total cost of the buildings, land improvements, and equipment placed in service during the year was approximately \$3.5 million.

### Debt:

The Hospital entered into two new capital lease obligations to finance the purchase of equipment in the amount of \$1,530,417. At year-end, the Hospital had approximately \$22.8 million in bonds payable outstanding and \$1.3 million in capital leases outstanding. A detail of long term debt is provided in Note H to the financial statements.

## OTHER ECONOMIC FACTORS

The Hospital is dependent upon payments from Medicare, Medicaid and other third-party payers. Each of these payers has continued to put pressure on reimbursement levels paid to the hospital. Medicare represents nearly 37% of hospital revenues and presently reimburses the hospital approximately 55% of billed charges.

Effective April 1, 2016, the Iowa Department of Human Services revised its method of paying for services provided to Medicaid patients. This brought an end to Medicaid cost based reimbursement. The effect of this change on the Hospital cannot currently be determined.

## CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Executive Officer, at Mahaska Health Partnership, Oskaloosa, Iowa 52577.

MAHASKA HEALTH PARTNERSHIP  
Statements of Net Position  
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 3,678,265	\$ 2,129,500
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$5,254,000 in 2016, \$6,038,000 in 2015)	10,617,584	12,955,754
Other receivables	199,308	239,674
Inventory	1,288,417	1,103,136
Prepaid expense	344,370	169,107
Succeeding year property tax receivable	2,248,000	1,808,000
Internally designated assets	<u>1,195,614</u>	<u>551,706</u>
Total current assets	19,571,558	18,956,877
Designated and Restricted Assets:		
Internally designated assets	3,621,083	3,605,375
Restricted assets	<u>1,006,000</u>	<u>1,006,000</u>
	4,627,083	4,611,375
Less amounts required to meet current liabilities	<u>1,195,614</u>	<u>551,706</u>
	3,431,469	4,059,669
Capital Assets:		
Depreciable capital assets	37,285,831	37,362,882
Non-depreciable capital assets	<u>1,381,468</u>	<u>1,921,934</u>
	38,667,299	39,284,816
Other Assets:		
Notes receivable	659,096	596,849
Other	<u>356,525</u>	<u>477,311</u>
	1,015,621	1,074,160
Total assets	62,685,947	63,375,522
Deferred Outflows of Resources - Pension	<u>5,824,152</u>	<u>6,282,941</u>
Total assets and deferred outflows of resources	<u>\$ 68,510,099</u>	<u>\$ 69,658,463</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 600,330	\$ 244,240
Current maturities of capital leases	306,077	--
Accounts payable	970,109	550,608
Accrued employee compensation	3,053,523	2,768,752
Accrued payroll taxes and withholding	734,670	740,035
Accrued health insurance claims	280,000	280,000
Accrued interest payable	25,173	25,173
Estimated third-party payor settlements	<u>210,000</u>	<u>823,000</u>
Total current liabilities	6,179,882	5,431,808
Long-Term Liabilities:		
Revenue bonds and notes payable, less current maturities	22,166,128	22,770,760
Capital leases, less current maturities	1,014,218	--
Net pension liability	<u>18,289,756</u>	<u>14,649,988</u>
Total long-term liabilities	41,470,102	37,420,748
Total liabilities	47,649,984	42,852,556
Deferred Inflows of Resources	3,812,653	7,572,942
Net Position:		
Invested in capital assets, net of related debt	14,571,339	16,242,350
Restricted	1,006,000	1,006,000
Unrestricted	<u>1,470,123</u>	<u>1,984,615</u>
Total net position	<u>17,047,462</u>	<u>19,232,965</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 68,510,099</u>	 <u>\$ 69,658,463</u>

MAHASKA HEALTH PARTNERSHIP  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Revenue:		
Net patient service revenue	\$ 49,562,467	\$ 48,425,900
Other revenue	<u>1,602,614</u>	<u>1,905,972</u>
Total revenue	51,165,081	50,331,872
Expenses:		
Nursing service	11,236,602	11,347,901
Other professional service	27,149,832	26,196,904
General service	2,998,777	2,947,005
Fiscal and administrative service	9,366,451	8,890,048
Provision for depreciation	3,556,880	3,343,991
Amortization	<u>146,823</u>	<u>146,822</u>
Total expenses	<u>54,455,365</u>	<u>52,872,671</u>
Operating Loss	( 3,290,284)	( 2,540,799)
Non-Operating Revenue (Expenses):		
County taxes	1,945,821	1,930,390
County subsidy - New Directions	172,427	226,893
Investment income	9,250	9,930
Noncapital contributions	6,452	6,727
Interest expense	<u>( 1,029,169)</u>	<u>( 1,006,906)</u>
Non-operating revenue, net	<u>1,104,781</u>	<u>1,167,034</u>
Excess of Expenses Over Revenues Before Capital Contribution	( 2,185,503)	( 1,373,765)
Capital Contributions	<u>--</u>	<u>500,000</u>
Excess of Expenses Over Revenues and Decrease in Net Position	( 2,185,503)	( 873,765)
Net Position Beginning of Year	<u>19,232,965</u>	<u>20,106,730</u>
Net Position End of Year	<u>\$ 17,047,462</u>	<u>\$ 19,232,965</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP  
Statements of Cash Flows  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 51,328,003	\$ 48,424,515
Cash paid to suppliers	( 21,158,381)	( 21,441,410)
Cash paid to employees	( 29,157,891)	( 27,966,504)
Other revenue	<u>1,602,614</u>	<u>1,905,972</u>
Net cash provided by operating activities	2,614,345	922,573
Cash flows from non-capital financing activities:		
County tax revenue and subsidy	2,118,248	2,157,283
Noncapital grants and contributions	<u>6,452</u>	<u>6,727</u>
Net cash provided by non-capital financing activities	2,124,700	2,164,010
Cash flows from capital and related financing activities:		
Capital expenditures	( 1,427,205)	( 2,089,318)
Change in other assets	( 26,037)	19,400
Capital grants and contributions	--	500,000
Interest paid	( 1,029,169)	( 1,006,906)
Principal paid on long-term debt	( 248,542)	--
Principal paid on capital leases	<u>( 210,122)</u>	<u>--</u>
Net cash used in capital and related financing activities	( 2,941,075)	( 2,576,824)
Cash flows from investing activities:		
Investment income	9,250	9,930
Loans granted for physician recruitment	<u>( 242,747)</u>	<u>( 357,164)</u>
Net cash used in investing activities	( 233,497)	( 347,234)
Net increase in cash and cash equivalents	1,564,473	162,525
Cash and cash equivalents at beginning of year	<u>6,734,875</u>	<u>6,572,350</u>
Cash and cash equivalents at end of year	<u>\$ 8,299,348</u>	<u>\$ 6,734,875</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 3,678,265	\$ 2,129,500
Cash and cash equivalents in designated and restricted assets	<u>4,621,083</u>	<u>4,605,375</u>
Total cash and cash equivalents	<u>\$ 8,299,348</u>	<u>\$ 6,734,875</u>

(continued next page)

MAHASKA HEALTH PARTNERSHIP  
Statements of Cash Flows - Continued  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$( 3,290,284)	\$( 2,540,799)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	3,556,880	3,343,991
Amortization	327,323	343,708
Changes in assets and liabilities		
Accounts receivable	2,378,536	( 413,333)
Inventory	( 185,281)	60,735
Prepaid expense	( 175,263)	24,300
Deferred outflows of resources	458,789	( 4,051,041)
Accounts payable, trade	437,760	( 256,065)
Accrued employee compensation	284,771	293,106
Accrued payroll taxes and withholding	( 5,365)	32,830
Accrued health insurance claims	--	80,000
Estimated third-party payor settlements	( 613,000)	428,000
Net pension liability	3,639,768	( 2,171,749)
Deferred inflows of resources - pension	( 4,200,289)	5,748,890
Total adjustments	<u>5,904,629</u>	<u>3,463,372</u>
Net cash provided by operating activities	<u>\$ 2,614,345</u>	<u>\$ 922,573</u>

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	<u>2016</u>	<u>2015</u>
Purchase of equipment through capital leases	<u>\$ 1,530,417</u>	<u>\$ --</u>

The accompanying notes are an integral part of these statements.



MAHASKA HEALTH PARTNERSHIP FOUNDATION  
Balance Sheets  
June 30,

ASSETS

	<u>2016</u>	<u>2015</u>
Assets:		
Cash	\$ 648,758	\$ 554,870
Equity securities	<u>583,201</u>	<u>597,646</u>
Total assets	<u>\$ 1,231,959</u>	<u>\$ 1,152,516</u>

LIABILITIES AND NET ASSETS

Net Assets:		
Restricted	<u>\$ 1,231,959</u>	<u>\$ 1,152,516</u>
Total liabilities and net assets	<u>\$ 1,231,959</u>	<u>\$ 1,152,516</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP FOUNDATION  
Statements of Activities and Changes in Net Assets  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Revenues and Other Support:		
Restricted contributions	\$ 102,295	\$ 604,406
Investment income	<u>29,348</u>	<u>10,020</u>
Total revenue	131,643	614,426
Expenses:		
Transfers to Mahaska Health Partnership	<u>7,339</u>	<u>514,279</u>
Total expenses	<u>7,339</u>	<u>514,279</u>
Operating Income	124,304	100,147
Change in Unrealized Gains and Losses on Investments, Other Than Trading Securities	<u>( 44,861)</u>	<u>( 1,722)</u>
Change in Net Assets	79,443	98,425
Net Assets Beginning of Year	<u>1,152,516</u>	<u>1,054,091</u>
Net Assets End of Year	<u>\$ 1,231,959</u>	<u>\$ 1,152,516</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP FOUNDATION  
Statements of Cash Flows  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received through contributions	\$ 101,157	\$ 106,286
Cash paid to suppliers and Hospital	<u>( 7,339)</u>	<u>( 514,279)</u>
Net cash provided by (used in) operating activities	93,818	( 407,993)
Cash flows from investing activities:		
Purchase of equity securities	( 29,278)	( 9,929)
Investment income	<u>29,348</u>	<u>10,020</u>
Net cash provided by investing activities	<u>70</u>	<u>91</u>
Net increase (decrease) in cash and cash equivalents	93,888	( 407,902)
Cash and cash equivalents at beginning of year	<u>554,870</u>	<u>962,772</u>
Cash and cash equivalents at end of year	<u>\$ 648,758</u>	<u>\$ 554,870</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 124,304	\$ 100,147
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Contributions received in securities	( 1,138)	( 498,120)
Investment income	<u>( 29,348)</u>	<u>( 10,020)</u>
Net cash provided by (used in) operating activities	<u>\$ 93,818</u>	<u>\$ ( 407,993)</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

The organization includes a hospital foundation and is a critical access county hospital with related healthcare ancillary, outpatient, physicians clinics and psychiatric services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Mahaska Health Partnership Foundation (Foundation) has been identified as a legally separate component unit of the Hospital, and accordingly, the financial statements of the Foundation have been included as a discretely presented component unit on pages 8 through 10. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. It was established to provide financial support to the Hospital. The Foundation's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending December 31, 2013, 2014, and 2015 are subject to examination by the IRS, generally for three years after they were filed.

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position:*

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Hospital's policy to use restricted net position first.

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Designated and Restricted Assets

Internally designated assets consist primarily of funds designated by the Board of Trustees for operations and employee health insurance. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, and funds whose use is limited by law or contractual agreements.

10. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

11. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest cost in 2016 or 2015.

12. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Hospital after the measurement date but before the end of the Hospital's reporting period.

13. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 420 hours. Any excess over 420 hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

14. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

15. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on IPERS investments.

16. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

17. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

18. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. By statute, the Board of Trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

19. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

20. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

21. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

22. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries.

Medicaid - Through March of 2016 the Medicaid payment system was similar to Medicare. In April the State of Iowa Medicaid program switched to a managed care payment system, with payment rates based on previous year cost reports. The Hospital will continue to file cost reports to determine payment rates for future years.

The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2014. The Medicaid cost reports have been finalized through June 30, 2013. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.



MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS Continued

A schedule of patient service revenue and related adjustments for the years ended June 30, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 24,677,333	\$ 27,095,346
Outpatient	<u>68,415,446</u>	<u>67,755,541</u>
Total gross patient service revenue	93,092,779	94,850,887
Deductions from gross patient service revenue:		
Medicare	15,284,719	16,788,243
Medicaid	3,835,840	4,660,977
Provision for bad debts	1,185,786	2,436,473
Charity care	173,598	275,558
Other deductions	<u>23,050,369</u>	<u>22,263,736</u>
Total deductions from gross patient service revenue	<u>43,530,312</u>	<u>46,424,987</u>
Net patient service revenue	<u>\$ 49,562,467</u>	<u>\$ 48,425,900</u>

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION

Restricted expendable assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
<u>Hospital</u>		
Long-term debt	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
<u>Foundation</u>		
Capital acquisitions	<u>\$ 1,231,959</u>	<u>\$ 1,152,516</u>

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2016</u>	<u>2015</u>
<u>Foundation</u>		
Purchase of capital assets and administrative expenses	<u>\$ 7,339</u>	<u>\$ 514,279</u>

Unless the contributor provides specific instructions, law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Board of Trustees is required to consider the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION - Continued

The Board of Trustees has chosen to spend the investment income and appreciation on the endowment fund while maintaining adequate amounts of earnings to maintain the principal original value. Any decreases in principal value will be replaced by retaining income in future years to return the principal to its original value.

Restricted nonexpendable assets as of June 30, 2016 and 2015 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

<u>Hospital</u>	<u>2016</u>	<u>2015</u>
Purchase of capital assets	\$ <u>6,000</u>	\$ <u>6,000</u>

NOTE D - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2016 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Foundation has no limitation to its type of investments.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Below is a list of the designated assets and their prescribed purpose.

<u>Hospital</u>	<u>2016</u>	<u>2015</u>
Operations	\$ 2,906,843	\$ 2,891,135
Employee health insurance	<u>714,240</u>	<u>714,240</u>
	<u>\$ 3,621,083</u>	<u>\$ 3,605,375</u>

The composition of designated and restricted assets is as follows:

	<u>2016</u>	<u>2015</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ <u>3,621,083</u>	\$ <u>3,605,375</u>
	<u>\$ 3,621,083</u>	<u>\$ 3,605,375</u>

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE D - DEPOSITS AND INVESTMENTS - Continued

Restricted Assets:

<u>Hospital</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,000,000	\$ 1,000,000
U.S. treasury obligations	<u>6,000</u>	<u>6,000</u>
	<u>\$ 1,006,000</u>	<u>\$ 1,006,000</u>
<u>Foundation</u>		
Cash and cash equivalents	\$ 648,758	\$ 554,870
Equity securities	<u>583,201</u>	<u>597,646</u>
	<u>\$ 1,231,959</u>	<u>\$ 1,152,516</u>

Interest rate risk. The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE E - FAIR VALUE MEASUREMENTS

The Hospital's investments are reported at fair value in the accompanying statements of net position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Hospital measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Hospital, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

*Level 1 Fair Value Measurements*

The fair value of equity securities is based on quoted net asset values of the shares held by the Hospital at year-end.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE E - FAIR VALUE MEASUREMENTS - Continued

*Level 3 Fair Value Measurements*

The notes receivable are not actively traded and significant other observable inputs are not available. The fair value of the notes receivable is based on contract value. Management believes these values approximate current fair value.

The following tables set forth, by level within the fair value hierarchy, the Hospital's investments at fair value as of June 30, 2016 and 2015:

		Fair Value Measurements at Reporting Date Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2016</u>	<u>Fair Value</u>		
<u>Hospital</u>			
U.S. treasury obligations	\$ 6,000	\$ 6,000	\$ --
Notes receivable	<u>659,096</u>	<u>--</u>	<u>659,096</u>
	<u>\$ 665,096</u>	<u>\$ 6,000</u>	<u>\$ 659,096</u>
<u>Foundation</u>			
Equity securities	<u>\$ 583,201</u>	<u>\$ 583,201</u>	<u>\$ --</u>
		Fair Value Measurements at Reporting Date Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2015</u>	<u>Fair Value</u>		
<u>Hospital</u>			
U.S. treasury obligations	\$ 6,000	\$ 6,000	\$ --
Notes receivable	<u>596,849</u>	<u>--</u>	<u>596,849</u>
	<u>\$ 602,849</u>	<u>\$ 6,000</u>	<u>\$ 596,849</u>
<u>Foundation</u>			
Equity securities	<u>\$ 597,646</u>	<u>\$ 597,646</u>	<u>\$ --</u>

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE E - FAIR VALUE MEASUREMENTS - Continued

The following tables reconcile the beginning and ending balances of fair value measurements for the Hospital's level 3 assets using unobservable inputs for the years ended June 30, 2016 and 2015:

June 30, 2016

Beginning balance	\$ 596,849
Notes receivable advanced	242,747
Amortization of notes receivable	<u>( 180,500)</u>
Ending balance	<u>\$ 659,096</u>

June 30, 2015

Beginning balance	\$ 436,571
Notes receivable advanced	357,164
Amortization of notes receivable	<u>( 196,886)</u>
Ending balance	<u>\$ 596,849</u>

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Receivable from:		
Patients	\$ 4,151,240	\$ 2,818,639
Medicare	4,482,196	5,220,874
Medicaid	1,977,092	3,678,163
Wellmark	2,639,856	3,833,808
Other commercial insurance carriers	1,235,913	1,753,641
Unbilled	1,279,263	1,555,414
Others	<u>106,024</u>	<u>133,215</u>
	15,871,584	18,993,754
Less allowances for doubtful accounts and contractual adjustments	<u>5,254,000</u>	<u>6,038,000</u>
	<u>\$ 10,617,584</u>	<u>\$ 12,955,754</u>

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2016 and 2015 were as follows:

<u>Cost</u>	<u>Balance 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2016</u>
Land Improvements	\$ 2,876,565	\$ 219,898	\$ --	\$ 3,096,463
Buildings	41,584,848	49,166	--	41,634,014
Major Movable Equipment	<u>24,999,646</u>	<u>3,210,765</u>	<u>--</u>	<u>28,210,411</u>
	69,461,059	3,479,829	--	72,940,888
<u>Depreciation</u>				
Land Improvements	1,156,129	169,008	--	1,325,137
Buildings	17,641,292	1,493,557	--	19,134,849
Major Movable Equipment	<u>13,300,756</u>	<u>1,894,315</u>	<u>--</u>	<u>15,195,071</u>
Total Depreciation	<u>32,098,177</u>	<u>3,556,880</u>	<u>--</u>	<u>35,655,057</u>
Depreciable Capital Assets, Net	<u>\$ 37,362,882</u>	<u>\$ ( 77,051)</u>	<u>\$ --</u>	<u>\$ 37,285,831</u>
Construction in Progress	\$ 1,363,198	\$ 601,939	\$ 1,541,582	\$ 423,555
Land	<u>558,736</u>	<u>399,177</u>	<u>--</u>	<u>957,913</u>
Total Non-depreciable Capital Assets	<u>\$ 1,921,934</u>	<u>\$ 1,001,116</u>	<u>\$ 1,541,582</u>	<u>\$ 1,381,468</u>

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
Land Improvements	\$ 2,446,030	\$ 430,535	\$ --	\$ 2,876,565
Buildings	41,563,169	21,679	--	41,584,848
Major Movable Equipment	<u>23,658,828</u>	<u>1,340,818</u>	<u>--</u>	<u>24,999,646</u>
	67,668,027	1,793,032	--	69,461,059
<u>Depreciation</u>				
Land Improvements	1,001,603	154,526	--	1,156,129
Buildings	16,039,114	1,602,178	--	17,641,292
Major Movable Equipment	<u>11,713,469</u>	<u>1,587,287</u>	<u>--</u>	<u>13,300,756</u>
Total Depreciation	<u>28,754,186</u>	<u>3,343,991</u>	<u>--</u>	<u>32,098,177</u>
Depreciable Capital Assets, Net	<u>\$ 38,913,841</u>	<u>\$ ( 1,550,959)</u>	<u>\$ --</u>	<u>\$ 37,362,882</u>
Construction in Progress	\$ 1,120,500	\$ 869,447	\$ 626,749	\$ 1,363,198
Land	<u>558,736</u>	<u>--</u>	<u>--</u>	<u>558,736</u>
Total Non-depreciable Capital Assets	<u>\$ 1,679,236</u>	<u>\$ 869,447</u>	<u>\$ 626,749</u>	<u>\$ 1,921,934</u>

NOTE H - LONG-TERM LIABILITIES

A schedule of changes in the Hospital's long-term liabilities for the years ended June 30, 2016 and 2015 follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2016</u>	<u>Current Portion</u>
Long-Term Debt:					
Bonds payable,					
USDA Rural					
Development	\$ 23,015,000	\$ --	\$ 248,542	\$ 22,766,458	\$ 600,330
Capital Leases:					
Intuitive surgical	--	1,440,666	179,850	1,260,816	276,601
EMC Global	<u>--</u>	<u>89,751</u>	<u>30,272</u>	<u>59,479</u>	<u>29,476</u>
Capital leases	--	1,530,417	210,122	1,320,295	306,077
Net Pension Liability	<u>14,649,988</u>	<u>3,639,768</u>	<u>--</u>	<u>18,289,756</u>	<u>--</u>
Total Long-Term Liabilities	<u>\$ 37,664,988</u>	<u>\$ 5,170,185</u>	<u>\$ 458,664</u>	<u>\$ 42,376,509</u>	<u>\$ 906,407</u>

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE H - LONG-TERM LIABILITIES - Continued

	<u>Balance 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>	<u>Current Portion</u>
Long-Term Debt:					
Bonds payable, USDA Rural Development	\$ 23,015,000	\$ --	\$ --	\$ 23,015,000	\$ 244,240
Net Pension Liability	<u>--</u>	<u>14,649,988</u>	<u>--</u>	<u>14,649,988</u>	<u>--</u>
Total Long-Term Liabilities	<u>\$ 23,015,000</u>	<u>\$ 14,649,988</u>	<u>\$ --</u>	<u>\$ 37,664,988</u>	<u>\$ 244,240</u>

Total interest cost for the year ended June 30, 2016 was \$1,029,169 (\$1,006,906 in 2015). Interest of \$ - 0 - (\$ - 0 - in 2015) was capitalized as part of the cost of construction in progress.

Bonds Payable, USDA Rural Development

The bonds are in the name of the Mahaska Health Partnership through United States Department of Agriculture, Rural Development for the construction and renovation of the Hospital. Under terms of the bonds, interest only payments of \$83,909 were due monthly with an interest rate of 4.375% through January, 2016. Beginning February, 2016 principal and interest payments of \$132,402 are due monthly. The bonds mature January 21, 2039. The Hospital has pledged all of its future revenues (net of certain expenses) to repay the bonds.

The annual debt service on the bonds is expected to require less than 57% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$1,488,000 and \$2,626,000, respectively.

Scheduled principal and interest repayments on the bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Bonds Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 600,330	\$ 988,494	\$ 1,588,824
2018	631,622	957,202	1,588,824
2019	659,815	929,009	1,588,824
2020	689,269	899,555	1,588,824
2021	720,036	868,788	1,588,824
2022 - 2026	4,111,969	3,832,153	7,944,122
2027 - 2031	5,115,392	2,828,729	7,944,121
2032 - 2036	6,363,677	1,580,445	7,944,122
2037 - 2039	<u>3,874,348</u>	<u>230,116</u>	<u>4,104,464</u>
	<u>\$ 22,766,458</u>	<u>\$ 13,114,491</u>	<u>\$ 35,880,949</u>



MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE I - CAPITAL LEASES

The Hospital entered into a capital lease agreement with Intuitive Surgical Inc. on September 30, 2015 for surgical robotics equipment. The agreement calls for monthly payments of \$25,887 for a period of 60 months with an approximate interest rate of 3.0%.

The Hospital entered into a capital lease agreement with EMC Global Financing on October 1, 2015 for IT server and storage equipment. The agreement requires annual payments of \$30,540 made on the 1<sup>st</sup> of December for three years including interest at 1.79%.

The equipment purchased through capital lease agreements has a total cost of \$1,530,417. Accumulated depreciation on this equipment totals \$171,809, including \$171,809 of depreciation for the year ended June 30, 2016.

The following is a schedule by year of future minimum lease payments and present value of net minimum lease payments:

Year Ending June 30,	Present Value of Net Minimum Lease Payments	Amount Representing Interest	Total Minimum Lease Payments
2017	\$ 306,076	\$ 35,106	\$ 341,182
2018	315,018	26,165	341,183
2019	293,683	16,960	310,643
2020	302,615	8,027	310,642
2021	<u>102,903</u>	<u>644</u>	<u>103,547</u>
Totals	<u>\$ 1,320,295</u>	<u>\$ 86,902</u>	<u>\$ 1,407,197</u>

NOTE J - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include succeeding year property tax and pension plan earnings. The succeeding property tax represents taxes certified by the County Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Pension earnings represents the net difference between projected and realized earnings on pension plan investments:

	2016	2015
Succeeding year property tax	\$ 2,248,000	\$ 1,808,000
Pension earnings	<u>1,564,653</u>	<u>5,764,942</u>
	<u>\$ 3,812,653</u>	<u>\$ 7,572,942</u>

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE K - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except for members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally at age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE K - PENSION PLAN - Continued

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the Hospital contributed 8.93% of covered payroll for a total rate of 14.88%. Protective occupation members contributed 6.56% of covered payroll and the Hospital contributed 9.84% of covered payroll, for a total rate of 16.40%.

The Hospital's contributions to IPERS for the year ended June 30, 2016 were \$2,438,888.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE K - PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Hospital reported a liability of \$18,289,756 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Hospital's proportion was 0.370202%, which was an increase of .000804% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Hospital recognized pension expense of \$2,364,251. At June 30, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 265,727	\$ --
Changes of assumptions	505,352	--
Net difference between projected and actual earnings on pension plan investments	--	1,564,653
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	2,614,185	--
Hospital contributions subsequent to the measurement date	<u>2,438,888</u>	<u>--</u>
	<u>\$ 5,824,152</u>	<u>\$ 1,564,653</u>

The \$2,438,888, reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts, reported as deferred outflows of resources and deferred inflows of resources, will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2017	\$ 252,642
2018	252,642
2019	252,642
2020	1,042,207
2021	<u>20,478</u>
	<u>\$ 1,820,611</u>

There were no non-employer contribution entities at IPERS.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE K - PENSION PLAN - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increases (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of IPERS investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE K - PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Hospital's proportionate share of the net pension liability	\$ 32,371,138	\$ 18,289,756	\$ 6,404,503

IPERS Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan - At June 30, 2016, the Hospital reported payables to IPERS of \$189,971 for legally required employer contributions and \$126,578 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE L - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's personnel department is responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE L - DEFERRED COMPENSATION PLAN - Continued

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2016 was \$402,929 (\$446,592 at June 30, 2015). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The self-insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 315 active employees and 10 retirees currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial.

NOTE N - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. The Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years

MAHASKA HEALTH PARTNERSHIP  
Notes to Financial Statements  
June 30, 2016 and 2015

NOTE N - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

Construction in progress at June 30, 2016 of \$423,555 consists of costs primarily related to the parking lot construction and lighting project. The total is expected to cost approximately \$650,000. The Hospital anticipates financing the construction project with internally generated funds.

Self-Funded Health Insurance

The Hospital has established a self-insured employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2016, the Hospital has accumulated funds in excess of actual claims paid of \$714,240 (\$714,240 at June 30, 2015). These funds, shown under internally designated assets are to be used to pay claims as they are filed in the future. The estimated amount of unpaid claims at June 30, 2016 is \$280,000 (\$280,000 at June 30, 2015), which is reported under current liabilities.

Subsequent Event

The Hospital has evaluated all subsequent events through November 17, 2016, the date the financial statements were available to be issued.

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## REQUIRED SUPPLEMENTARY INFORMATION

MAHASKA HEALTH PARTNERSHIP  
Budgetary Comparison Schedule  
Year ended June 30, 2016

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for interest, capital purchases, depreciation, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,945,821	\$ --	\$ 1,945,821
Other revenues	<u>50,324,041</u> 52,269,862	<u>--</u> --	<u>50,324,041</u> 52,269,862
Expenses	<u>54,455,365</u>	<u>--</u>	<u>54,455,365</u>
Net	( 2,185,503)	--	( 2,185,503)
Balance beginning of year	<u>18,226,965</u>	<u>1,006,000</u>	<u>19,232,965</u>
Balance end of year	<u>\$ 16,041,462</u>	<u>\$ 1,006,000</u>	<u>\$ 17,047,462</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,945,821	\$ --	\$ 1,945,821	\$ 1,808,219
Other revenues	<u>50,324,041</u> 52,269,862	<u>1,029,169</u> 1,029,169	<u>51,353,210</u> 53,299,031	<u>62,539,229</u> 64,347,448
Expenses	<u>54,455,365</u>	<u>( 1,100,506)</u>	<u>53,354,859</u>	<u>62,392,919</u>
Net	( 2,185,503)	2,129,675	( 55,828)	1,954,529
Balance beginning of year	<u>19,232,965</u>	<u>18,701,595</u>	<u>37,934,560</u>	<u>37,934,560</u>
Balance end of year	<u>\$ 17,047,462</u>	<u>\$ 20,831,270</u>	<u>\$ 37,878,732</u>	<u>\$ 39,889,089</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Schedule of the Hospital's Proportionate Share of the Net IPERS Pension Liability  
June 30, 2016

	<u>2016</u>	<u>2015</u>
Hospital's proportion of the net pension liability	0.370202%	0.369398%
Hospital's proportionate share of the net pension liability	\$ 18,290,000	\$ 14,650,000
Hospital's covered-employee payroll	\$ 25,933,000	25,056,000
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	70.53%	58.47%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available. The amounts presented are from the previous IPERS June 30 fiscal year. Amounts reported are rounded.

See accompanying independent auditor's report.

MAHASKA HEALTH PARTNERSHIP  
Schedule of Hospital IPERS Pension Contributions  
Year Ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 2,439,000	\$ 2,316,000	\$ 2,238,000	\$ 1,722,000
Contributions in relation to the statutorily required contribution	<u>( 2,439,000)</u>	<u>( 2,316,000)</u>	<u>( 2,238,000)</u>	<u>( 1,722,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Hospital's covered-employee payroll	\$ 27,191,000	\$ 25,933,000	\$ 25,056,000	\$ 19,860,000
Contributions as a percentage of covered-employee payroll	8.97%	8.93%	8.93%	8.67%

Note - Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,460,000	\$ 1,143,000	\$ 1,069,000	\$ 950,000	\$ 837,000	\$ 761,000
<u>( 1,460,000)</u>	<u>( 1,143,000)</u>	<u>( 1,069,000)</u>	<u>( 950,000)</u>	<u>( 837,000)</u>	<u>( 761,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 19,872,000	\$ 18,162,000	\$ 17,109,000	\$ 15,811,000	\$ 14,590,000	\$ 13,773,000
7.35%	6.29%	6.25%	6.01%	5.74%	5.53%

MAHASKA HEALTH PARTNERSHIP  
Notes to Required Supplementary Information - Pension Liability  
Year Ended June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

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## SUPPLEMENTARY INFORMATION

MAHASKA HEALTH PARTNERSHIP  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
Hospital				
0 - 30	\$ 7,447,219	46.9%	\$ 7,895,968	41.6%
31 - 60	2,071,146	13.1	2,921,136	15.4
61 - 90	1,129,517	7.1	1,339,315	7.0
91 - 120	694,719	4.4	832,333	4.4
Over 121	<u>4,528,983</u>	<u>28.5</u>	<u>6,005,002</u>	<u>31.6</u>
	15,871,584	<u>100.0%</u>	18,993,754	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	1,520,000		1,276,000	
Allowance for contractual adjustments	<u>3,734,000</u>		<u>4,762,000</u>	
	<u>\$ 10,617,584</u>		<u>\$ 12,955,754</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning	\$1,276,000	\$1,280,000
Provision for bad debts	1,185,786	2,436,473
Recoveries of accounts previously written off	<u>390,981</u>	<u>468,158</u>
	2,852,767	4,184,631
Accounts written off	<u>1,332,767</u>	<u>2,908,631</u>
Balance, ending	<u>\$1,520,000</u>	<u>\$1,276,000</u>

See Independent Auditor's Report.



MAHASKA HEALTH PARTNERSHIP  
Inventory/Prepaid Expense  
June 30,

	<u>2016</u>	<u>2015</u>
<u>Inventory</u>		
Store room	\$ 167,096	\$ 70,651
Dietary	10,320	12,739
Pharmacy	307,371	272,584
Laboratory	71,046	92,327
Operating room	724,997	649,207
Radiology	<u>7,587</u>	<u>5,628</u>
	<u>\$ 1,288,417</u>	<u>\$ 1,103,136</u>
 <u>Prepaid Expense</u>		
Dues and contracts	<u>\$ 344,370</u>	<u>\$ 169,107</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Patient Service Revenue  
Year ended June 30,

	2016	
	Inpatient	Outpatient
Daily Patient Services:		
Medical and surgical	\$ 3,716,769	\$ 1,673,188
Coronary care	--	--
Nursery	402,972	--
Obstetrics	584,265	111,869
Swing bed	--	--
Vision Quest	<u>2,654,383</u>	<u>--</u>
	<u>7,358,389</u>	<u>1,785,057</u>
Other Nursing Services:		
Operating and recovery rooms	1,178,612	6,941,518
Delivery and labor rooms	574,146	183,157
Central services and supply	2,423,613	1,895,035
Wound/ostomy care	1,590	96,193
Emergency services	134,254	4,570,298
Cardiac rehabilitation and stress test	<u>423</u>	<u>232,402</u>
	<u>4,312,638</u>	<u>13,918,603</u>
Other Professional Services:		
Emergency room physicians	44,885	3,021,833
Laboratory	1,269,582	9,647,974
Radiology	115,337	2,075,499
Ultrasound	66,679	787,882
Nuclear scanning	10,009	118,818
MRI scanning	124,197	1,802,405
CT scanning	402,678	3,795,490
Outsourced services	190,527	988,195
Pharmacy	2,212,300	5,250,997
Oncology	--	309,071
Anesthesiology	765,687	1,890,487
Respiratory therapy	1,103,311	1,033,248
Physical therapy	267,136	1,721,806
Occupational therapy	128,221	249,325
Speech therapy	9,420	28,889
Durable medical equipment	--	392,590
Massage therapy	--	44,188
Ambulance	9,066	2,364,868
Community health	--	1,466,421
Hospice	567,254	568,497
Occupational health	--	105,949
New Directions	124,509	2,243,687
Hospitalist	599,843	217,424
Physician clinics	<u>3,492,151</u>	<u>12,586,243</u>
	<u>11,502,792</u>	<u>52,711,786</u>
	<u>\$ 23,173,819</u>	<u>\$ 68,415,446</u>

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2016		2015
Swing Bed	Total	Total
\$ --	\$ 5,389,957	\$ 5,559,807
--	--	12,208
--	402,972	374,463
437	696,571	635,268
540,828	540,828	505,775
--	2,654,383	2,338,469
<u>541,265</u>	<u>9,684,711</u>	<u>9,425,990</u>
13,066	8,133,196	8,484,987
--	757,303	696,054
23,038	4,341,686	4,904,681
3,816	101,599	100,674
970	4,705,522	5,055,548
--	232,825	333,397
<u>40,890</u>	<u>18,272,131</u>	<u>19,575,341</u>
--	3,066,718	2,870,696
119,649	11,037,205	10,782,857
9,002	2,199,838	2,297,162
4,082	858,643	843,773
--	128,827	119,356
--	1,926,602	2,173,282
--	4,198,168	4,468,917
12,417	1,191,139	1,201,889
306,716	7,770,013	8,895,838
--	309,071	412,370
7,691	2,663,865	2,906,474
189,492	2,326,051	2,601,665
115,548	2,104,490	2,084,967
60,621	438,167	353,061
3,911	42,220	37,948
--	392,590	258,490
--	44,188	47,047
--	2,373,934	2,277,873
--	1,466,421	1,434,836
--	1,135,751	799,417
--	105,949	137,258
--	2,368,196	1,869,901
92,230	909,497	960,480
--	16,078,394	16,013,999
<u>921,359</u>	<u>65,135,937</u>	<u>65,849,556</u>
<u>\$ 1,503,514</u>	<u>\$ 93,092,779</u>	<u>\$ 94,850,887</u>

MAHASKA HEALTH PARTNERSHIP  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 93,092,779	\$ 94,850,887
Contractual adjustments	( 42,170,928)	( 43,712,956)
Charity care	( 173,598)	( 275,558)
Provision for bad debts	<u>( 1,185,786)</u>	<u>( 2,436,473)</u>
	<u>\$ 49,562,467</u>	<u>\$ 48,425,900</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 232,777	\$ 249,189
Medical record transcripts	19,843	20,275
Outpatient clinics	112,119	92,569
Dietary services	71,627	72,278
Retail pharmacy income, net	658,288	941,142
Noncapital grants	360,224	339,357
Miscellaneous	<u>147,736</u>	<u>191,162</u>
	<u>\$ 1,602,614</u>	<u>\$ 1,905,972</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Nursing Service Expenses  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Administrative:		
Salaries and wages	\$ 704,960	\$ 352,964
Employee benefits	111,279	51,092
Supplies and other expense	<u>8,401</u>	<u>16,000</u>
	824,640	420,056
Medical and Surgical:		
Salaries and wages	2,116,897	2,401,011
Employee benefits	343,365	398,310
Supplies and other expense	<u>170,565</u>	<u>208,283</u>
	2,630,827	3,007,604
Obstetrics:		
Salaries and wages	694,130	695,548
Employee benefits	112,110	116,737
Supplies and other expense	<u>114,100</u>	<u>119,243</u>
	920,340	931,528
Vision Quest:		
Salaries and wages	943,996	928,755
Employee benefits	151,828	148,094
Purchased services	8,027	8,186
Supplies and other expense	<u>29,150</u>	<u>41,371</u>
	1,133,001	1,126,406
Operating and Recovery Rooms:		
Salaries and wages	914,001	868,423
Employee benefits	142,400	140,805
Supplies and other expense	<u>806,812</u>	<u>681,329</u>
	1,863,213	1,690,557
Central Services and Supply:		
Supplies and other expense	1,918,832	2,314,405

(continued next page)

MAHASKA HEALTH PARTNERSHIP  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Wound/Ostomy Care:		
Salaries and wages	\$ 35,057	\$ 31,434
Employee benefits	5,646	5,120
Supplies and other expense	<u>7,447</u>	<u>7,028</u>
	48,150	43,582
Emergency Services:		
Salaries and wages	1,327,185	1,255,390
Employee benefits	217,127	203,413
Supplies and other expense	<u>110,597</u>	<u>138,383</u>
	1,654,909	1,597,186
Cardiac Rehabilitation:		
Salaries and wages	177,935	147,753
Employee benefits	28,528	26,366
Supplies and other expense	<u>36,227</u>	<u>42,458</u>
	<u>242,690</u>	<u>216,577</u>
	<u>\$ 11,236,602</u>	<u>\$ 11,347,901</u>

SUMMARY

Salaries and wages	\$ 6,914,161	\$ 6,681,278
Employee benefits	1,112,283	1,089,937
Supplies and other expense	<u>3,210,158</u>	<u>3,576,686</u>
	<u>\$ 11,236,602</u>	<u>\$ 11,347,901</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Other Professional Service Expenses  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Emergency Room Physicians:		
Salaries and wages	\$ 1,380,298	\$ 1,391,788
Employee benefits	168,103	174,377
Professional fees	25,595	52,450
Supplies and other expense	<u>15,828</u>	<u>13,423</u>
	1,589,824	1,632,038
Laboratory:		
Salaries and wages	643,663	585,827
Employee benefits	102,686	94,842
Purchased services	657,406	512,589
Supplies and other expense	<u>734,518</u>	<u>857,437</u>
	2,138,273	2,050,695
Oncology:		
Salaries and wages	175,780	176,441
Employee benefits	28,727	28,346
Supplies and other expense	<u>20,229</u>	<u>28,190</u>
	224,736	232,977
Radiology and Ultrasound:		
Salaries and wages	750,919	705,716
Employee benefits	120,195	112,801
Supplies and other expense	<u>477,054</u>	<u>500,435</u>
	1,348,168	1,318,952
Outsourced Services:		
Purchased services	342,344	275,878
Supplies and other expense	<u>--</u>	<u>12</u>
	342,344	275,890
Pharmacy:		
Salaries and wages	338,173	346,866
Employee benefits	53,665	53,765
Drugs and other expense	<u>2,336,741</u>	<u>2,152,346</u>
	2,728,579	2,552,977

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MAHASKA HEALTH PARTNERSHIP  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Anesthesiology:		
Salaries and wages	\$ 657,023	\$ 731,545
Employee benefits	86,382	72,386
Supplies and other expense	<u>60,626</u>	<u>78,470</u>
	804,031	882,401
Respiratory Therapy:		
Salaries and wages	301,427	295,753
Employee benefits	47,425	47,264
Professional fees	11,707	4,400
Supplies and other expense	<u>97,701</u>	<u>38,501</u>
	458,260	385,918
Physical Therapy:		
Professional fees	840,885	864,808
Supplies and other expense	<u>35,803</u>	<u>31,381</u>
	876,688	896,189
Speech Therapy:		
Salaries and wages	17,401	17,374
Employee benefits	2,701	2,914
Supplies and other expense	<u>557</u>	<u>498</u>
	20,659	20,786
Occupational Therapy:		
Professional fees	175,747	146,125
Supplies and other expense	<u>5,918</u>	<u>3,222</u>
	181,665	149,347
Ambulance:		
Salaries and wages	124,843	116,955
Employee benefits	21,142	20,266
Purchased services	967	--
Supplies and other expense	<u>42,461</u>	<u>39,573</u>
	189,413	176,794
Community Health:		
Salaries and wages	897,023	848,960
Employee benefits	143,996	134,916
Purchased services	159,886	165,120
Supplies and other expense	<u>110,917</u>	<u>137,481</u>
	1,311,822	1,286,477

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MAHASKA HEALTH PARTNERSHIP  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Hospice:		
Salaries and wages	\$ 954,423	\$ 877,132
Employee benefits	151,366	142,899
Supplies and other expense	<u>264,499</u>	<u>220,443</u>
	1,370,288	1,240,474
Medical Records:		
Salaries and wages	761,081	787,622
Employee benefits	127,288	130,845
Supplies and other expense	<u>41,095</u>	<u>200,836</u>
	929,464	1,119,303
Physician Clinics:		
Salaries and wages	7,627,167	7,617,679
Employee benefits	930,083	906,182
Supplies and other expense	<u>471,621</u>	<u>458,507</u>
	9,028,871	8,982,368
Dietician Services:		
Salaries and wages	66,011	65,837
Employee benefits	10,696	10,522
Supplies and other expense	<u>3,212</u>	<u>1,034</u>
	79,919	77,393
New Directions:		
Salaries and wages	1,661,466	1,317,854
Employee benefits	257,614	206,168
Purchased services	16,968	16,324
Supplies and other expense	<u>43,682</u>	<u>63,912</u>
	1,979,730	1,604,258
Hospitalist:		
Salaries and wages	856,774	724,650
Employee benefits	133,040	93,450
Supplies and other expense	<u>14,613</u>	<u>8,981</u>
	1,004,427	827,081
Occupational Health:		
Salaries and wages	135,226	131,577
Employee benefits	21,789	20,854
Purchased services	14,392	4,552
Supplies and other expense	<u>25,139</u>	<u>47,938</u>
	196,546	204,921

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MAHASKA HEALTH PARTNERSHIP  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Employee Health:		
Salaries and wages	\$ 49,964	\$ 31,161
Employee benefits	7,289	4,446
Supplies and other expense	<u>10,137</u>	<u>20,966</u>
	67,390	56,573
Durable Medical Equipment:		
Salaries and wages	57,460	50,979
Employee benefits	9,470	8,159
Supplies and other expense	<u>148,201</u>	<u>100,732</u>
	215,131	159,870
Massage Therapy:		
Salaries and wages	53,244	52,494
Employee benefits	8,750	8,728
Supplies and other expense	<u>1,610</u>	<u>2,000</u>
	<u>63,604</u>	<u>63,222</u>
	<u>\$ 27,149,832</u>	<u>\$ 26,196,904</u>

SUMMARY

Salaries and wages	\$ 17,509,366	\$ 16,874,210
Employee benefits	2,432,407	2,274,130
Professional fees	1,053,934	1,067,783
Supplies and other expense	<u>6,154,125</u>	<u>5,980,781</u>
	<u>\$ 27,149,832</u>	<u>\$ 26,196,904</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
General Service Expenses  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Dietary:		
Salaries and wages	\$ 414,504	\$ 403,755
Employee benefits	66,550	63,044
Food	343,434	407,766
Supplies and other expense	<u>103,520</u>	<u>68,570</u>
	928,008	943,135
Operation of Plant:		
Salaries and wages	372,472	339,454
Employee benefits	59,165	56,040
Utilities	550,558	562,995
Supplies and other expense	<u>388,946</u>	<u>373,666</u>
	1,371,141	1,332,155
Environmental Services:		
Salaries and wages	429,079	402,259
Employee benefits	68,526	62,044
Supplies and other expense	<u>68,313</u>	<u>67,948</u>
	565,918	532,251
Laundry and Linen:		
Salaries and wages	93,745	90,134
Employee benefits	14,945	14,012
Supplies and other expense	<u>25,020</u>	<u>35,318</u>
	<u>133,710</u>	<u>139,464</u>
	<u>\$ 2,998,777</u>	<u>\$ 2,947,005</u>

SUMMARY

Salaries and wages	\$ 1,309,800	\$ 1,235,602
Employee benefits	209,186	195,140
Supplies and other expense	<u>1,479,791</u>	<u>1,516,263</u>
	<u>\$ 2,998,777</u>	<u>\$ 2,947,005</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Fiscal and Administrative Service Expenses  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Administrative:		
Salaries and wages	\$ 2,725,799	\$ 2,538,817
Employee benefits	477,990	418,336
Professional fees	168,333	196,453
Supplies and other expense	523,643	629,599
Purchased services	259,280	240,781
Travel and education	21,226	44,431
Telephone	7,054	10,551
Dues, subscriptions and licenses	33,540	67,183
Collection fees	127,630	122,062
	<u>4,344,495</u>	<u>4,268,213</u>
Information Systems:		
Salaries and wages	408,083	380,828
Employee benefits	65,974	60,579
Purchased services	308,699	311,867
Supplies and other expense	309,720	295,568
	<u>1,092,476</u>	<u>1,048,842</u>
Purchasing:		
Salaries and wages	174,836	181,939
Employee benefits	28,061	28,658
Supplies and other expense	59,739	65,893
	<u>262,636</u>	<u>276,490</u>
Public Relations:		
Salaries and wages	168,979	162,329
Employee benefits	27,275	25,906
Supplies and other expense	167,522	220,543
	<u>363,776</u>	<u>408,778</u>
Human Resources:		
Salaries and wages	231,638	204,607
Employee benefits	37,566	32,722
Purchased services	23,130	19,635
Supplies and other expense	40,577	28,894
	<u>332,911</u>	<u>285,858</u>

(continued next page)

MAHASKA HEALTH PARTNERSHIP  
Fiscal and Administrative Service Expenses - Continued  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Employee Welfare:		
Unemployment tax	\$ 84,440	\$ 13,018
Group health and life insurance	2,136,587	2,205,627
Workers' compensation insurance	390,093	307,964
Pension related costs	( 101,732)	( 457,848)
	<u>2,509,388</u>	<u>2,068,761</u>
Insurance:		
Insurance and bonding expense	<u>460,769</u>	<u>533,106</u>
	<u>\$ 9,366,451</u>	<u>\$ 8,890,048</u>

SUMMARY

Salaries and wages	\$ 3,709,335	\$ 3,468,520
Employee benefits	3,146,254	2,634,962
Professional fees	168,333	196,453
Supplies and other expense	<u>2,342,529</u>	<u>2,590,113</u>
	<u>\$ 9,366,451</u>	<u>\$ 8,890,048</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 29,442,662	\$ 28,259,610
Employee benefits	6,900,130	6,194,169
Professional fees	1,222,267	1,264,236
Supplies and other expense	<u>13,186,603</u>	<u>13,663,843</u>
	<u>\$ 50,751,662</u>	<u>\$ 49,381,858</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Comparative Statistics  
Year ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Acute Care:					
Admissions	1,189	1,382	1,239	1,092	1,094
Discharges	1,200	1,384	1,227	1,091	1,100
Patient days	3,975	4,341	3,985	3,593	3,616
Average length of stay	3.31	3.14	3.25	3.29	3.29
Average occupied beds	10.9	11.9	10.9	9.8	9.9
Vision Quest:					
Admissions	117	108	119	114	134
Discharges	117	107	120	114	134
Patient days	1,935	1,715	1,854	1,665	1,778
Average length of stay	16.54	16.03	15.48	14.61	13.27
Average occupied beds	5.3	4.7	5.1	4.7	4.9
Swing Bed:					
Admissions	148	153	212	248	257
Discharges	149	155	211	248	258
SNF days	900	817	1,069	1,297	1,591
Combined Average Occupied Beds	18.6	18.8	18.9	18.0	19.1
Nursery Days	519	486	461	399	357
Hospice House Days	1,369	874	910	978	1,069
Home Health Visits	17,171	18,041	16,989	16,418	14,798
Outpatient Occasions of Service	212,139	208,826	196,046	137,115	113,403

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP  
Comparative Statements of Net Position  
June 30,

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 3,678,265	\$ 2,129,500
Receivables, net	10,816,892	13,195,428
Inventory	1,288,417	1,103,136
Prepaid expense	344,370	169,107
Estimated third-party payor settlements	--	--
Succeeding year property tax receivable	2,248,000	1,808,000
Internally designated assets	<u>1,195,614</u>	<u>551,706</u>
Total current assets	19,571,558	18,956,877
Other Assets:		
Designated and restricted assets, net	3,431,469	4,059,669
Capital assets, net	38,667,299	39,284,816
Other assets	<u>1,015,621</u>	<u>1,074,160</u>
Total other assets	43,114,389	44,418,645
Deferred Outflows of Resources - Pension	<u>5,824,152</u>	<u>6,282,941</u>
Total assets and deferred outflows of resources	<u>\$ 68,510,099</u>	<u>\$ 69,658,463</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 906,407	\$ 244,240
Accounts payable	970,109	550,608
Accrued expenses	4,093,366	3,813,960
Estimated third-party payor settlements	<u>210,000</u>	<u>823,000</u>
Total current liabilities	6,179,882	5,431,808
Long-Term Liabilities:		
Long-term debt, net	23,180,346	22,770,760
Net pension liability	<u>18,289,756</u>	<u>14,649,988</u>
Total liabilities	47,649,984	42,852,556
Deferred Inflows of Resources	3,812,653	7,572,942
Net Position	<u>17,047,462</u>	<u>19,232,965</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 68,510,099</u>	<u>\$ 69,658,463</u>

See Independent Auditor's Report.

	Not Restated		
	2014	2013	2012
\$	1,073,128	\$ 2,303,763	\$ 1,483,346
	12,782,095	8,149,052	7,289,679
	1,163,871	1,122,398	1,145,220
	193,407	164,560	136,619
	--	94,000	--
	1,807,000	1,800,000	1,800,000
	211,054	1,200,000	1,200,000
	<u>17,230,555</u>	<u>14,833,773</u>	<u>13,054,864</u>
	5,294,168	4,835,025	4,797,187
	40,593,077	40,526,354	29,599,675
	1,080,104	270,224	129,561
	<u>46,967,349</u>	<u>45,631,603</u>	<u>34,526,423</u>
	<u>--</u>	<u>--</u>	<u>--</u>
\$	<u>64,197,904</u>	<u>\$ 60,465,376</u>	<u>\$ 47,581,287</u>
\$	--	\$ 2,223,892	\$ 1,194,508
	860,261	1,968,355	2,995,677
	3,408,024	2,978,478	2,367,954
	395,000	--	270,000
	<u>4,663,285</u>	<u>7,170,725</u>	<u>6,828,139</u>
	23,015,000	16,374,894	5,550,607
	--	--	--
	<u>27,678,285</u>	<u>23,545,619</u>	<u>12,378,746</u>
	1,823,052	2,198,072	1,800,000
	<u>34,696,567</u>	<u>34,721,685</u>	<u>33,402,541</u>
\$	<u>64,197,904</u>	<u>\$ 60,465,376</u>	<u>\$ 47,581,287</u>



MAHASKA HEALTH PARTNERSHIP  
Comparative Statements of Revenues and Expenses  
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Patient Service Revenue	\$ 93,092,779	\$ 94,850,887
Adjustments to Patient Service Revenue	<u>( 43,530,312)</u>	<u>( 46,424,987)</u>
Net Patient Service Revenue	49,562,467	48,425,900
Other Revenue	<u>1,602,614</u>	<u>1,905,972</u>
Total Revenue	51,165,081	50,331,872
Expenses	<u>54,455,365</u>	<u>52,872,671</u>
Operating Loss	( 3,290,284)	( 2,540,799)
Non-Operating Revenue, net	1,104,781	1,167,034
Capital Grants and Contributions	<u>--</u>	<u>500,000</u>
Excess of Revenues Over (Under) Expenses	<u><u>\$ ( 2,185,503)</u></u>	<u><u>\$ ( 873,765)</u></u>

See Independent Auditor's Report.

	Not Restated	
<u>2014</u>	<u>2013</u>	<u>2012</u>
\$ 87,065,694	\$ 71,116,127	\$ 63,650,838
<u>( 38,437,908)</u>	<u>( 31,701,849)</u>	<u>( 27,500,741)</u>
48,627,786	39,414,278	36,150,097
<u>1,733,785</u>	<u>598,992</u>	<u>373,521</u>
50,361,571	40,013,270	36,523,618
<u>51,241,204</u>	<u>41,016,468</u>	<u>37,609,644</u>
( 879,633)	( 1,003,198)	( 1,086,026)
854,515	2,322,342	1,930,173
<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ ( 25,118)</u>	<u>\$ 1,319,144</u>	<u>\$ 844,147</u>

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
Mahaska Health Partnership  
Oskaloosa, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mahaska Health Partnership, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mahaska Health Partnership's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mahaska Health Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mahaska Health Partnership's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 16-I-A.

To the Board of Trustees  
Mahaska Health Partnership

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mahaska Health Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### Responses to Findings

Mahaska Health Partnership's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Mahaska Health Partnership's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gmewoll, Ben, Kyhn & Co. P.C.

Atlantic, Iowa  
November 17, 2016

MAHASKA HEALTH PARTNERSHIP  
Schedule of Findings and Responses  
Year ended June 30, 2016

PART I - INTERNAL CONTROL DEFICIENCIES

16-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. However, this situation is common in rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*

PART II - REQUIRED STATUTORY REPORTING

16-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2016 did not exceed amounts budgeted.

16-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Bradbury Hall, William Penn, Oskaloosa School Orchestra, Oskaloosa Chamber	Employee recognition banquet	\$ 6,389

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

MAHASKA HEALTH PARTNERSHIP  
Schedule of Findings and Responses - Continued  
Year ended June 30, 2016

PART II - REQUIRED STATUTORY REPORTING - Continued

16-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

16-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

16-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

16-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

\* \* \*